

PURPOSE

The Michigan Department of Health and Human Services (MDHHS) monitors grants to ensure they are administered in compliance with applicable laws, rules, regulations, and contract provisions; and through an appropriate system of accounting and administrative controls.

REVISION HISTORY

Issued: April 29, 2004.
Revised: January 8, 2007.
Revised: September 4, 2007.
Revised: January 22, 2010.
Revised: October 1, 2012.

DEFINITIONS**2 CFR 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards**

The uniform administrative requirements, cost principles, and audit requirements for federal awards to non-federal entities.

Audit Findings

Deficiencies, weaknesses, and noncompliance which the auditor is required to report in the audit report's Schedule of Findings and Questioned Costs in accordance with 2 CFR 200.516 (a).

Bureau of Audit, Reimbursement, and Quality Assurance (BARQA)

A Bureau within the Michigan Department of Health and Human Services (MDHHS).

Corrective Action

Action taken by the subrecipient that corrects identified deficiencies, produces recommended improvements, or demonstrates that the audit finding is either invalid or does not warrant auditee action as defined by 2 CFR 200.26.

CIGIE Checklist

The Council of Inspectors General on Integrity and Efficiency Checklist is completed every three years, at a minimum, for subrecipient's that receive total funding from the department which meets or exceeds the single audit threshold. Its purpose is to

ensure technical compliance in audit reports, including compliance with 2 CFR 200: Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards; Government Auditing Standards; and generally accepted auditing standards.

Exemption Notice

A notice submitted by subrecipient to the department stating that the subrecipient is exempt from audit reporting requirements for their respective fiscal year.

Federal Audit Clearinghouse

The clearinghouse designated by the Office of Management and Budget (OMB) as the repository of record where subrecipient entities are required to transmit the reporting packages required by 2 CFR 200.512 (b).

Financial Statement Audit Review Checklist

A BARQA checklist completed for all audit reports received. Its purpose is to identify financial statement disclosures that may negatively impact the department's grant funding.

Management Decision

The evaluation of audit findings, questioned costs and corrective action plans; and the issuance of a written decision to the subrecipient. The management decision must state whether or not the audit finding is sustained; the reasons for the decision; the expected action of the subrecipient to repay any disallowed costs, make financial adjustments or take other actions; the reference number(s) the auditor assigned to each audit finding; and a description of any appeal process available to the subrecipient regarding the management decision, as required by 2 CFR 200.521. If the subrecipient has not completed corrective action, a timetable for follow-up should be given.

Program Specific Audit

When a subrecipient expends federal awards under only one federal program (excluding R&D) and the federal program's statutes, regulations, or the terms and conditions of the federal award do not require a financial statement audit, they may elect to

have a program specific audit conducted in accordance with 2 CFR 200.507.

Questioned Cost

A cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award; where the costs at the time of the audit are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Schedule of Expenditures of Federal Awards (SEFA)

A schedule prepared by the subrecipient which is included in the single audit report. It must list federal awards for the subrecipient's fiscal year, the total amount of federal awards expended and additional detail as outlined in 2 CFR 200.510(b).

Single Audit

A non-federal entity that has federal expenditures at or over the single audit threshold during the entity's fiscal year must have a single audit conducted in accordance with 2 CFR 200.514 except when it elects to have a program specific audit.

Single Audit Review Checklist

A BARQA checklist completed for all single audit and program specific audit reports received. Its purpose is to identify findings that may impact the department's grants, determine compliance with reporting requirements, reconcile audited grant information to department information, and ensure all department federal grants are properly included in the audits.

Subrecipient

A non-federal entity that receives a sub-award from a pass-through entity to carry out part of a federal program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency. Guidance in determining if a subrecipient relationship exists is provided at 2 CFR 200.330 (a).

Subrecipient Audit Report Monitoring System (SARMS)

An audit report tracking database maintained by BARQA for the purpose of identifying agencies subject to the department's audit requirements; and tracking timely receipt, review and resolution of any issues identified in the audit reports.

Subrecipient Financial Capacity Assessment Checklist

A BARQA checklist completed to evaluate the subrecipient's financial capacity for cases where there is reason to believe there is a going concern issue or other financial weaknesses based on review of the Independent Auditor's Report or the notes to the financial statements.

POLICY

The Bureau of Audit, Reimbursement and Quality Assurance (BARQA) will:

- Ensure subrecipients submit audit reports and exemption notices, as applicable, to the department in accordance with the Department's contractual audit requirements and 2 CFR 200.
- Review subrecipient audit reports to ensure they are in compliance with technical reporting requirements.
- Refer reported audit findings and other identified issues that may negatively impact department grants to the respective program offices for follow-up to ensure subrecipients take appropriate and timely corrective action.
- Coordinate with responsible department program offices for the issuance of management decisions on audit findings.

Program offices Administering Federal Awards will:

- Coordinate with BARQA on the issuance of management decisions on audit findings.
- Monitor subrecipient's corrective actions.
- Track the collection of questioned costs.

Bureau of Purchasing will:

Ensure audit requirement language is incorporated into subrecipient's grant agreements.

Provide BARQA with Contract Tracking Program (CTP) and EGrams payment data related to subrecipients annually for SARMS data load purposes.

PROCEDURE

Grant Agreement Audit Requirements

BARQA

Annually provides the Bureau of Purchasing with recommended subrecipient audit requirement contract language in accordance with their grant agreement development schedule, in response to changes in federal laws, regulations and department audit requirements.

Bureau of Purchasing

Incorporates recommended subrecipient audit requirement language, or alternative language agreed upon by BARQA, in the department's standard grant agreement(s) that complies with federal, state and department audit requirements.

Annual Audit Report Population Determination

Bureau of Purchasing

Annually provides subrecipient payment information for the latest completed fiscal year ends of subrecipients, using parameters specified by BARQA, from the following three databases: EGrams, Contract Tracking System, and Contract Tracking Program.

BARQA

Annually populates the SARMS database with payment information from the Bureau of Purchasing related to the prior fiscal year ends of subrecipients. Performs detailed testing procedures to insure the accuracy of data in SARMS. Based on payment data, SARMS

identifies the type of submission expected from each subrecipient (single audit or exemption notice) based on total federal department payments made to each subrecipient during the respective fiscal year.

Audit Report Tracking

BARQA

- Logs the receipt of audit reports and exemption notices in SARMS, and saves electronic copies.
- Monitors SARMS database reports to ensure that required audit reports or exemption notices are received within nine months after the end of each subrecipient's fiscal year end in accordance with the department's contractual audit requirements.
- If audit reports or exemption notices become delinquent, follows up with the subrecipients until their required submissions are received.

Note: BARQA, in coordination with the program office, may also consider assessing penalties for delinquent submissions as allowed in the department's contract.

Alternate procedure for subrecipients receiving less than \$100,000 funding from the department: BARQA will query the Federal Audit Clearinghouse database for an audit filing and any audit findings noted. If any findings are present that could impact department grants, will obtain a copy of the audit report and complete a standard audit review.

- Notifies applicable program offices of the delinquent status of audit reports that extend beyond six months from the due date for the purpose of determining if other monitoring procedures should be implemented or if other actions should be taken (for example, on-site review, limited scope audit, termination of the current grant or non-renewal of the grant).
- Updates SARMS with all follow-up actions taken to obtain required audit reports and exemption notices.
- Monitors SARMS reports to ensure received audit reports are reviewed and, when applicable, a management decision is

issued within six months of the report receipt date in accordance with 2 CFR 200.521.

Audit Report Reviews

BARQA

- Completes the Financial Statement Audit Review Checklist within SARMS for all audit reports received.
- If there is an indication a Management Letter was issued, but it was not submitted along with the single audit report, obtains a copy of it, as deemed necessary.
- Completes the Single Audit Review Checklist within SARMS for all single audits and program specific audits received.
- If financial risk factors are identified in the Financial Statement Audit Review Checklist, completes the Subrecipient Financial Capacity Assessment Checklist within SARMS to evaluate the subrecipient's financial capacity.
- Completes the Council of Inspectors General on Integrity and Efficiency (CIGIE) Checklist within SARMS for each subrecipient that receives total funding from the department which meets or exceeds the single audit threshold, every three years at a minimum. For higher risk cases this checklist may be completed more frequently than every three years.
- Summarizes within SARMS audit findings and other negative disclosures (such as going concerns or other financial capacity issues) identified in the audit review that may impact department grants and need additional follow-up. Enters all follow-up actions and due dates in SARMS for tracking purposes.

Audit Review Follow-Up

BARQA

- Contacts subrecipients or auditors for additional information as needed.

- Determines course of action for federal program audit findings, financial statement audit findings, negative disclosures (such as financial capacity concerns) and Schedule of Expenditures of Federal Awards deficiencies. Generally, the actions listed below will be taken for each item, but depending on the issue, or combination of issues, procedures may be modified to ensure efficient and effective resolution. For example, when there are audit findings for more than one department program office, BARQA will be responsible for coordinating and issuing the management decision letter to the auditee with input from the respective program offices.
- Updates the status of each audit review in SARMS until all follow-up actions are completed and the file is closed.

Federal Program Audit Findings

BARQA

Refers federal audit findings to the respective department program offices and requests that they issue a management decision, which requires the investigation and evaluation of findings, questioned costs, and corrective actions taken or planned by the subrecipient. The management decision, with a copy to BARQA, is due the earlier of 30 days after the date of the BARQA memo to the program office, or six months after the department's receipt of the audit report.

Department Program Office

- Issues a written management decision to the auditee, with a copy to BARQA, within the time limits listed in the preceding paragraph. The management decision will include whether or not the audit finding is sustained; the reasons for the decision; and the expected auditee action to repay questioned costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Supporting documentation related to the management decision (such as justification for waiving questioned costs) must be retained by the program office for audit purposes.
- Monitors the auditee's corrective action and repayment of questioned costs, when applicable.

**Financial
Statement Audit
Findings****BARQA**

- Determines whether financial statement findings have possible material impact on department grant funding. If so, follows-up with the auditee, as needed, to obtain information needed to issue a management decision on the findings. Issues a written management decision to the auditee, with a copy to program offices that may be impacted by the findings. The management decision will include whether or not the audit finding is sustained, the reasons for the decision, and whether the auditee's corrective action is adequate, and if not, what additional actions are needed.
- Reviews the agency's subsequent year audit report to confirm the finding was resolved. If the finding is repeated, will investigate why, and will issue a management decision which clearly indicates it is a repeat finding, and will copy respective program offices.

**Negative
Disclosures****BARQA**

Identifies negative disclosures in the Notes to the Financial Statements and Management Letters and determines whether they have possible material impact on department grant funding. If so, determines whether BARQA or the respective program offices should address them based on the types of issues identified. If BARQA addresses them, will copy the program office on any correspondence. Otherwise, will notify the program offices of the issues for their information and possible follow-up.

**Financial Capacity
Concerns****BARQA**

If it is determined that financial capacity concerns exist for a subrecipient based on the results of the Subrecipient Financial Capacity Assessment Checklist, BARQA will send a memo to department program offices that provided grant funding to the

subrecipient, which summarizes the financial risk factors identified for their information, and additional follow-up at their discretion. Some additional follow-up actions that may be considered by the department program offices are as follows:

- Require documentation from the subrecipient for the purpose of evaluating the subrecipient's current financial condition (such as obtain the most recent quarterly financial statements).
- Request a deficit elimination plan, if not filed with the audit. If one was filed, request an update on the planned improvements.
- Impose additional reporting requirements if the subrecipient has a history of poor performance and is not financially stable (for example, obtain supporting documentation such as cancelled checks, payroll reports, etc.).

**Schedule of
Expenditures of
Federal Awards
(SEFA)
Deficiencies**

BARQA

Reviews the SEFA to determine whether department grant funding is properly reported. Material errors and omissions identified will be communicated to the subrecipient, and a corrective action plan will be obtained from the subrecipient.

If the SEFA deficiencies are considered material to the current year, BARQA may request that the auditee correct and re-issue the SEFA. Deficiencies include:

- Incorrect pass through agencies.
- Incorrect grant numbers.
- Incorrect CFDA numbers.
- The omission of subrecipient type grants.

If the reviewer notes a material difference in the amount of audited federal expenses reported in the SEFA for department grants BARQA will:

- Follow-up to determine the reason for the difference, and will document all follow-up in SARMS.

- Notify relevant parties of any issues identified in the reconciliation.

If the reviewer notes a repeat deficiency for three consecutive years, the respective department program offices will be copied on the related correspondence with the auditee.

REFERENCES

2 CFR 200: Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, final guidance published December 26, 2013, with the Joint Interim Final Rule of December 19, 2014 implementing the final guidance and making technical corrections.

Department Standard Subrecipient Contract.

FORMS

Financial Statement Audit Review Checklist.

Single Audit Review Checklist.

Subrecipient Financial Capacity Assessment Checklist.

Council of Inspectors General on Integrity and Efficiency Checklist.

Exemption Notice.

CONTACT

For additional information concerning this policy, contact the MDHHS Bureau of Audit, Reimbursement and Quality Assurance at 517- 241-7599.